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February 18, 2009

AGENDA ITEM 6

TO: MEMBERS OF THE BENEFITS AND PROGRAM ADMINISTRATION COMMITTEE

- I. SUBJECT:** Procedures for Board's Award of CalPERS Contracts
- II. PROGRAM:** Administration
- III. RECOMMENDATION:** Staff recommends that the Board modify the existing scoring policy to utilize a "trimmed average" scoring methodology for Board interviews, as reflected in Attachment 4.
- IV. ANALYSIS:**

At the October 21, 2008 and the December 16, 2008, Benefits and Program Administration Committee (BPAC) meetings, Operations Support Services Division (OSSD) presented the existing "Procedures for Board's Award of CalPERS Contracts". At that time the Committee directed staff to bring back an action item to revise the existing procedures.

Existing Policy

On November 19, 2003, the Board adopted the current policy "Procedures for Board's Award of CalPERS Contracts". The policy states "that each time the Board approves an individual contract solicitation, it also (1) sets the maximum point allocations for scoring by staff and by the Board, and (2) designates "Method B" for the apportionment method, for the Board's interview points for the contract" (see Attachment 1, page 4). Method B provides:

The RFP would specify the total available points to be awarded by the Board, and the maximum number of points would be awarded to the Board's highest ranked bidder,

and the remaining bidders would receive points proportionate to their ranking, the incremental difference between bidders to be determined by dividing the number of points by the number of finalists. The Board, by motion, would determine the rank of the bidders. For example, under this method, if 400 points were to be awarded by the Board and there were four finalists, the first-ranked finalist would receive 400 points, the second-ranked finalist would receive 300 points, the third-ranked finalist would receive 200 points, and the fourth-ranked finalist would receive 100 points. The contract would be awarded to the bidder receiving the highest total points. The Board's second choice would be the bidder with the second-highest total.

The current policy has the potential to dilute the effect of the Board's participation in the selection process if a high number of finalists are scored. In contrast, if there are a small number of finalists, the current policy has the potential to increase the Board's influence because the incremental difference between the interview scores would be greater. An illustration of the effect the number of finalists has on the outcome of the selection process is included in Attachment 2.

Proposed Alternative

An option that would provide a more balanced approach would be a "trimmed average." Using a "trimmed average", when the Board chooses to interview Finalists for a CalPERS contract award, the Board can either interview the Finalists itself or instruct a Committee to interview the Finalists. In order to ensure a fair and meaningful evaluation process, each Board/Committee member could individually assign a score to each proposal. Using a score sheet with integers ranging from 0 to 5, the Board/Committee member could circle the number that he or she feels best represents the score of the vendor. A grade of 0 represents "unacceptable"; grades of 1 through 5 represent poor, fair, good, very good, and excellent, respectively, as illustrated in Attachment 3.

The highest score and the lowest score would be ignored utilizing a "trimmed average" approach, and the remaining scores would then be combined and averaged. This mimics the scoring method used in most international sports competitions and discourages assigning a relatively high score on a weak performance or a relatively low score on a strong performance. An additional advantage is that it prevents skewed averages resulting from a single high or a single low score. Assume the following example:

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1. There are 9 committee members assigning scores
2. The maximum points are 100
3. The nine scores assigned, in descending order, are: 5,5,5,5,4, 4, 4, 3, 1

Then using the “trimmed average” method, one score of “5” and one score of “1” would be ignored, leaving a total of 30 divided by 7 equaling a “trimmed average” score of 4.29. The points would then be calculated as follows, and also illustrated in Attachment 4:

1. Trimmed average score of 4.29 times the maximum points of 100 equaling 429.
2. The total of 429 is then divided by 5 (the number of positive score choices) in order to reach the final Board/Committee interview score.
3. In this case, the final interview score for this vendor would be 85.8.
4. This score would then be added to the staff-assigned scores (such as the technical and fee scores) for a final score.

Generally, the Board only interviews in the case of single awards; however, the Board can utilize this same methodology for pool awards, with the exception that more than four companies would be allowed to be interviewed. In that case, all vendors that pass the technical and fee scores with a 70% passing score, would be eligible for a Board interview.

Additionally, Public Contract Code Section 10344 (c)(2), requires all scores to be part of the public record. Therefore, the score sheets will be recorded as Rater 1, Rater 2, etc. and will not include Board members' names.

Recommendation

Staff recommends that the Board approve the “trimmed average” method for the “Procedures for Board’s Award of CalPERS Contracts”. The policy will state:

Unless the Board elects a modified procedure for a particular solicitation, each time the Board approves an RFP award contract solicitation, the Board will (1) set the maximum point allocations for scoring by staff and by the Board, (2) interview and score up to the top four bidders except in the case of pool awards, and (3) will utilize a “trimmed average” scoring methodology for awarding points for the Board interviews.

For example, under this method, if there are nine Board/Committee members assigning scores, the maximum points for the Board interview is 100; and the scores in descending order are 5,5,5,5,4, 4, 4, 3, 1; then one score of “5” and one score of “1” would be

ignored, leaving a total of all remaining scores of 30. Thirty is then divided by 7 (the number of remaining scores) equaling a “trimmed average” score of 4.29. The Board interview points would then be calculated by multiplying 4.29 times the maximum points of 100 equaling 429, then dividing by 5, which is the number of positive score choices to reach the final interview score of 85.8. This score would then be added to the technical and fee scores for a final vendor score. The vendor with the highest final vendor score would be awarded the contract, subject to final negotiations and satisfaction of all requirements.

V. STRATEGIC PLAN:

This item is not a specific product of the strategic plan, but is the result of a special request by the Benefits and Program Administration Committee.

VI. RESULTS/COSTS:

This does not result in any costs.

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Attachments